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Message Text

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ACTION EB-08

INFO OCT-01 ISO-00 SP-02 L-03 INR-10 SS-15 H-01 PA-01
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TO SECSTATE WASHDC PRIORITY 1726

C O N F I D E N T I A L SECTION 1 OF 2 HAVANA 1076

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EO 11652: GDS
TAGS: ETRD EPAP EAGR CU
SUBJ: SUGAR: CUBAN POLICY AND COUNTRY-BY-COUNTRY QUOTAS

REF: HAVANA 965

1. SUMMARY: ESTABLISHMENT OF COUNTRY-BY-COUNTRY SUGAR QUOTAS AT PRESENT TIME WOULD CREATE FORMIDABLE OBSTACLES FOR OUR CUBAN POLICY. IF IT IS NECESSARY, NONETHELESS, TO MOVE IN DIRECTION OF COUNTRY-BY-COUNTRY SUGAR QUOTAS, WE SHOULD CONSIDER POSSIBILITY OF SETTING ASIDE SUBSTANTIAL RESERVE FOR POSSIBLE FUTURE USE BY CUBA. END SUMMARY.

2. USINT REALIZES THAT RECENT INTERNATIONAL TRADE COMMISSION (ITC) RECOMMENDATIONS TO PRESIDENT (STATE 94471) ARE NOT OBLIGATORY. NONETHELESS, WE ARE CONCERNED THAT CURRENT EFFORT TO DEVELOP COMPREHENSIVE PROGRAM TO SUPPORT DOMESTIC SUGAR PRICE WILL CREATE INCREASED PRESSURE TO ACCEPT ITC MAJORITY RECOMMENDATION FOR COUNTRY-BY-COUNTRY QUOTAS.

3. DEPENDING ON THEIR MAKE-UP, COUNTRY-BY-COUNTRY SUGAR QUOTAS COULD HAVE DECIDEDLY NEGATIVE EFFECT ON OUR CURRENT CUBAN POLICY. GIVEN FACT THAT SOME EIGHTY-
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FIVE PERCENT OF CUBAN EXPORT INCOME IS GNERATED BY SUGAR, AVAILABILITY OR LACK OF AVAILABILITY OF POTENTIAL US MARKET FOR FUTURE CUBAN SUGAR SALES WILL PLAY DECISIVE ROLE IN DETERMINING HOW ATTRACTIVE US EMBARGO-LIFTING IS AS POLICY GOAL FOR HAVANA. IT IT APPEARS THAT FUTURE CUBAN SUGAR SALES TO US WOULD BE IMPOSSIBLE OR HIGHLY RESTRICTED, CUBANS WOULD HAVE LITTLE INCENTIVE ON ECONOMIC GROUNDS TO MOVE TOWARD INCREASED

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COOPERATION, EVEN ON RELATIVELY MINOR ISSUES, WITH US.

4. WE UNDERSTAND THAT, IN WAKE OF IMPOSITION OF EMBARGO, DURING 1960'S, CUBANS WERE ALLOCATED EACH YEAR FIFTY PERCENT OF UNDESIGNATED THREE MILLION TON FOREIGN SUGAR QUOTA (1.5 MILLION TONS). THIS QUOTA, BECAUSE OF EMBARGO, WAS WITHHELD AND DIVIDED EACH YEAR AMONG VARIOUS OTHER FOREIGN SUGAR EXPORTERS. IN 1971, THIS "CUBAN RESERVE" WAS REDUCED BY CONGRESSIONAL MANDATE TO 23.74 PERCENT OF UNSPECIFIED FOREIGN QUOTA (738,129 TONS) WITH DIFFERENCE BETWEEN EARLIER AND POST-1971 QUOTA DISTRIBUTED PERMANENTLY TO OTHER PRODUCING NATIONS. WITH 1974 CONGRESSIONAL TERMINATION OF SUGAR ACT AND QUOTA SYSTEM, "CUBAN RESERVE" CEASED TO EXIST.

5. PRESUMABLY, IF COUNTRY-BY-COUNTRY QUOTA SYSTEM WERE RE-INSTALLED, US MIGHT HAVE TO EXCLUDE CUBANS FROM QUOTA MECHANISM FOR PRESENT OR REINSTITUTE "CUBAN RESERVE" ALONG MODEL OF PARA 4. EXCLUSION OF CUBANS FROM QUOTA MECHANISM WOULD IN PRACTICAL TERMS MEAN THAT ANY FUTURE OPENING OF SUGAR TRADE WITH CUBA WOULD HAVE TO BE REALIZED THROUGH: (A) POLITICALLY AND ECONOMICALLY DIFFICULT REDUCTION OF ESTABLISHED QUOTAS OF OTHER FOREIGN PRODUCERS, OR (B) ALLOCATION TO CUBA OF ANY INCREASE IN US CONSUMPTION (WHICH IN FACT HAS REMAINED AT PLATEAU IN RECENT YEARS IN PART BECAUSE OF INROADS OF CORN SWEETENERS). IF, ON OTHER HAND, EFFORT WERE MADE INITIALLY TO REINSTITUTE "CUBAN RESERVE", CONFIDENTIAL

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EXECUTIVE BRANCH WOULD FACE DIFFICULT TASK OF PROVIDING SUFFICIENTLY SIGNIFICANT CUBAN RESERVE QUOTA IN FACE OF PREDICTABLE CONGRESSIONAL AND FOREIGN COMPETIOR SNIPING.

6. FURTHERMORE, AS NOTED IN REFTEL, SECTION 620 OF FOREIGN ASSISTANCE ACT OF 1961 SPECIFICALLY PROHIBITS USE BY CUBANS OF ANY SUGAR QUOTA UNLESS HAVANA HAS TAKEN "APPROPRIATE STEPS....TO PROVIDE EQUITABLE COMPENSATION" TO US CITIZENS OR COMPANIES FOR PROPERTY EXPROPRIATED IN CUBA. WHILE THIS PROVISION HAS PRESIDENTIUL OVERRIDE CLAUSE AND CONTAINS FLEXIBLE "APPROPRIATE STEPS" LANGUAGE, DANGER EXISTS THAT STRICT INTERPRETATION OF THIS CLAUSE BY SOME, IN WAKE OF ANY FUTURE PRESIDENTIAL DECISION TO LIFT EMBARGO, COULD CREATE "CATCH 22" SITUATION IN WHICH FAILURE BY CUBANS" TO PROVIDE" (TO TRANSFER IMMEDIATELY AND FULLY) COMPENSATION FUNDS MIGHT BE CITED AS GROUNDS FOR DENYING CUBANS MEANS TO ACCUMULATE THESE FUNDS (THROUGH SUGAR SALES--THE BASIS OF THE CUBAN COMPENSATION FORMULA PROPOSED IN 1960). THUS, IF COUNTRY-BY-COUNTRY QUOTAS WERE IN EXISTENCE, CONTROVERSY OVER LEGAL REQUIREMENTS OF SECTION 620 MIGHT SIGNIFICANTLY LIMIT EXECUTIVE BRANCH FLEXIBILITY IN HANDLING COMPENSATION PROBLEM.

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C O N F I D E N T I A L SECTION 2 OF 2 HAVANA 1076

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C O R R E C T E D C O P Y (TEXT CORRECTED)

7. WITH REGARD TO MORE FUNDAMENTAL ISSUE OF CUBA'S FUTURE POLITICAL-ECONOMIC ORIENTATION, POSSIBILITY OR LACK THEREOF OF POETENTIAL ACCESS TO US SUGAR MARKET COULD HAVE SIGNIFICANT IMPACT ON NATURE AND FLEXIBILITY OF CUBAN ECONOMIC ARRANGEMENTS WITH SOVIET UNION AND EASTERN EUROPE FOR NEXT FIVE YEAR PLAN (1981-85). SHOULD CUBA, AS RESULT OF NON-RECEIPT OF MEANINGFUL US QUOTA, SENSE THAT POSSIBILITY FOR ENTERING US MARKET IS ESSENTIALLY FORECLOSED (THUS RESTRICTING CUBA'S FREE MARKET COMPETITIVE POSSIBILITIES AND ELIMINATING ANY EVENTUAL CHANCE TO ADJUST UPWARD CUBAN FREE MARKET QUOTA UNDER CURRENT OR FUTURE INTERNATIONAL SUGAR AGREEMENT), HAVANA WILL HAVE STRONG INCENTIVES TO COMMIT DEFINITIVELY GREATER PROPORTION OF ITS FUTURE SUGAR CROPS TO SOVIET UNION AND ITS ALLIES. WHILE TREND IS LIKELY TO BE IN THIS DIRECTION ANYWAY BECAUSE OF PLANNED CUBAN PRODUCTION INCREASES, NEED FOR EVEN GREATER CUBAN SUGAR SALES TO USSR PRESUMABLY COULD INFLUENCE SOVIETS TO CURTAIL THEIR OUWN SUGAR BEET EXPANSION PLANS--THUS MAKING SOVIETS MORE DEPENDENT ON CUBA (AND CONCERNED ABOUT ANY LOSS OF SUGAR SUPPLIES THROUGH CUBAN OPENING TO US) AND VICE-VERSA. INCREASED CUBAN POLITICAL IDENTIFICATION WITH THE BLOC WOULD BE AN OBVIOUS COROLLARY--WITH UNCERTAIN CONSEQUENCES DEPENDING ON NATURE OF FUTURE SOVIET POLICY.
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8. COMMENT: IN SUM, WE FIND MUCH, FROM CUBAN POLICY PERSPECTIVE, THAT RECOMMENDS AGAINST COUNTRY-BY-COUNTRY SUGAR QUOTAS. IF, HOWEVER, OTHER CIRCUMSTANCES COUNSEL IN FAVOR OF ESTABLISHMENT OF SUCH QUOTAS, IT SEEMS VERY IMPORTANT THAT "RESERVE" BE SET ASIDE FOR CUBA THAT IS SUBSTANTIAL ENOUGH TO SERVE AS MEANINGFUL BAIT AND WHICH CAN BE USED AS ARGUMENT BY THOSE IN CUBAN LEADERSHIP WHO WOULD PREFER THAT CUBA GIVE PRIORITY TO ITS ECONOMIC NEEDS OVER FOREIGN ADVENTURISM. GIVEN FACT THAT CUBANS STATE THAT ABOUT ONE MILLION TONS (OUT OF THEIR 2.5 MILLION TON ISA BASIC EXPORT TONNAGE) ARE ALREADY COMMITTED IN MEDIUM-TERM AGREEMENTS, A US RESERVE OF 1.5 MILLION TONS--EQUIVALENT TO THE RESERVE MAINTAINED UP TO 1971 BY THE US FOR CUBA--WOULD BE IDEAL. FAILING THIS, A RESERVE OF 1 MILLION TONS (EQUAL TO DIFFERENCE BETWEEN CUBAN MEDIUM-TERM COMMITMENTS AND REDUCED 1978 ISA QUOTA) WOULD BE POSSIBLE FALLBACK. AVOIDANCE OF COUNTRY-BY-COUNTRY QUOTAS, HOWEVER, WOULD BE OPTIMAL SOLUTION.
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